

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2010-4-G

IN RE:

Annual Review of Purchased Gas)	JOINT PROPOSED ORDER
Adjustment and Gas Purchasing)	RULING ON PURCHASED
Policies of Piedmont Natural Gas)	GAS ADJUSTMENT AND GAS
Company, Inc.)	PURCHASING POLICIES

The above-captioned matter is before the Public Service Commission of South Carolina (“Commission”) concerning its annual review¹ of the Purchased Gas Adjustment (“PGA”) and gas purchasing policies of Piedmont Natural Gas Company, Inc. (“PNG”). The Office of Regulatory Staff (“ORS”) is a party of record in this proceeding under the provisions of S.C. Code Ann. § 58-4-10(B) (Supp. 2009). PNG and ORS (collectively the “Parties” or individually a “Party”) entered into a Settlement Agreement (“Settlement Agreement”) which was filed with the Commission on July 6, 2010.

The Commission conducted a formal hearing in this matter on July 15, 2010, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable John E. Howard, Chairman, presiding. Jeffrey M. Nelson, Esquire appeared on behalf of ORS. James H. Jeffries, IV, Esquire and Dan D’Alberto, Esquire appeared on behalf of PNG.

At the hearing, the Commission accepted into the record the pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits of PNG witnesses Robert L. Thornton and William C. Williams, as well as the pre-filed direct testimony and exhibits of ORS witness Daniel F. Sullivan and the pre-filed direct and settlement testimony of

¹ See Commission Order No. 88-294 dated April 6, 1988 (annual review).

Carey M. Stites. The Commission also accepted into evidence the Settlement Agreement as Hearing Exhibit No. 1. Mr. Sullivan's exhibits were admitted into evidence as composite Hearing Exhibit No. 2. Mr. Thornton's exhibits were entered into evidence as composite Hearing Exhibit No. 3. Mr. Williams' exhibits were admitted into evidence as composite Hearing Exhibit No. 4.

PNG witness Maust testified as to PNG's gas purchasing policies and the components of the "best cost" gas purchasing policy. Mr. Maust stated that PNG did not implement any changes in its "best cost" gas purchasing policies or practices during the Review Period (April 1, 2009 to March 31, 2010) and PNG's hedging plan accomplished the goal of reducing gas cost volatility to South Carolina customers purchasing gas from PNG. PNG's South Carolina customers incurred a net economic cost of \$5,435,784 as a result of PNG's hedging plan during the Review Period. Mr. Maust also testified that the "best cost" purchasing policy utilized by PNG has been reviewed and found prudent on all occasions in South Carolina and the other state jurisdictions in which PNG operates.

PNG witness Thornton testified to the end of period balances in and the accounting for Piedmont's deferred gas cost account (Account 253.04) during the Review Period. That accounting is set out in composite Hearing Exhibit No. 3. Mr. Thornton also stated that ORS audited PNG's gas cost accounting as part of this proceeding. Finally, Mr. Thornton testified that PNG's accounting of its gas costs during the Review Period included previously approved changes to its Lost and Unaccounted For methodology and its treatment of unbilled revenues with respect to its demand and commodity true-up calculations.

PNG witness Williams testified that PNG serves approximately 133,000 customers in South Carolina and that during the twelve month period ending March 31, 2010, Piedmont

delivered approximately 24,321,000 dekatherms of natural gas to its South Carolina customers. PNG has continued to experience a reduction in weather normalized usage per customer which may be due to the efficiency of new appliances used by customers as well as increased price awareness and conservation efforts on the part of customers. PNG and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions.

ORS witness Sullivan testified that ORS had performed an examination of all aspects of PNG's deferred account #253.04 for the Review Period and that based upon that examination, as is identified and discussed in his testimony, it is the opinion of ORS that account #253.04 is accurately stated and that the balance of \$2,596,766 fairly represents PNG's under-collection balance as of March 31, 2010.

ORS witness Stites testified that PNG had adequate firm supplies to meet its firm customer requirements; is continuing its attempts to get the best terms available in its negotiations with suppliers; has used the spot market to purchase supplies for periods of one month or less; and managed its hedging activities in a manner consistent with the terms of its approved hedging program during the Review Period. In addition, ORS does not recommend any change to the benchmark cost of gas at this time.

In her settlement testimony, ORS witness Stites testified that PNG administered its Gas Cost Recovery Mechanism (GCRM) during the review period in accordance with the Commission approved tariff and that ORS has determined that the terms of the Settlement Agreement serve the public interest and the Settlement Agreement is offered by all parties as a fair, reasonable and full resolution of all issues in this proceeding. The Settlement Agreement balances the concerns of the using public and preserves the financial integrity of PNG.

The July 6, 2010 Settlement Agreement reflected the Parties agreement that: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; and (iv) the end-of-period balances for PNG's hedging and deferred gas costs accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

NOW, THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. The pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits of PNG witnesses Robert L. Thornton and William C. Williams are accepted into the record without objection.

2. The pre-filed direct testimony and exhibits of ORS witnesses Daniel F. Sullivan and the pre-filed direct and settlement testimony of Cary M. Stites are accepted into the record without objection.

3. The Settlement Agreement is accepted into the record and incorporated into and made part of this Order by reference and, based upon the testimony and exhibits presented at the Hearing of this matter, is found to be in the public interest and constitutes a reasonable resolution of this proceeding.

4. PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent.

5. PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period.

6. PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders.

7. The end-of-period balances for PNG's hedging and deferred gas cost accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

8. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

John E. Howard, Chairman

ATTEST:

David A. Wright, Vice-Chairman